



Foreign Direct Investment, Management and Their Role in Economic Development - Kosovo Case

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Abstract

The purpose of this paper is to present the trends of FDI in the Western Balkan countries with an open look in Kosovo and their comparison, investment policy management, GDP FDI correlation and comparison of the trends of the remittances. One of the important aspects of a country's economic development is Foreign Direct Investment (FDI), these investments impact on economic development and improve social aspects. At the international level as well as at the country level, FDI has a relevant significance which as an issue is related to the sustainable management policy that makes the country more attractive in absorbing FDI. Firstly in the introduction of this paper there is a theoretical review of the literature on the definitions of FDI in the economic aspect. Secondly, FDI has been presented and compared over the years in the Western Balkans countries with a vacant look in Kosovo. Third, it analyzes the FDI trends in Kosovo based on the country of origin of these investments, etc. Fourth, in the framework of this research paper, country-level management policies were analyzed in terms of creating an incentive environment for FDI. Fifth, as part of this paperwork, there are also empirical analysis of the correlations between FDI and GDP in the case of Kosovo, etc..

Keywords: Foreign Direct Investment, Investment Policy Management, Correlations, Remittances

JEL classification: F21, M12, C33, F24

Introduction

Foreign direct investment in Kosovo continues to be one of the most important sources of capital flow and economic development. According to the data of the Central Bank of Kosovo (CBK), in 2017 the value of FDI in Kosovo amounts to about 287.8 million euros, if compared to 2016, the growth of FDI in Kosovo is characterized by an annual increase of over 30%. FDI growth was mainly recorded in the financial services, real estate and construction sectors, while the trade and industry sectors declined in 2017. Within the FDI structure, capital growth was characterized by equity and equity investment fund, which together accounted for about 92% of total FDI, while investments in debt instruments declined. Based on comparative analysis, the value of FDI in Kosovo determined from the trend analysis over the ten year period, from 2007 to 2017, turns out to be quite volatile, but has a positive correlation with the euro area economy, in the sense of an economic growth in the Eurozone, which corresponds to an increase in FDI in Kosovo (CBK, 2018). Switzerland, Germany, Turkey, Austria and the United Kingdom are countries that have invested and continue to be the main investors in Kosovo. According to the CBK, Germany invested about 55.9m euros in 2017, Switzerland invested 50.6m euros, Turkey invested 29.5m euros, the United Kingdom invested 27.0m euros and Austria invested around 20.3m euros, while other states' investments in Kosovo have been lower. The foreign investment portfolio is highly concentrated and foreign investment diversification remains at an unsatisfactory level, indicating that there is still room for improving supply and raising the level of investment from other countries. Concerning the impact of FDI on GDP, an increase in the level of FDI impact on GDP has been shown; if we analyze that the lowest impact of FDI on GDP was in 2014, where the percentage was 2.8%, while comparing 2017 to 2016, in 2017 the impact of foreign investment on GDP increased by about 4.0%. Creating a stable, credible political system and managing this system properly and with high responsibility has an essential role in attracting FDI. So Kosovo needs to work harder on creating and managing more sustainable policies in order to attract FDI. Empirically, the correlation coefficient between FDI and GDP turns out to be $R = -0.19$, which indicates that there is a weak negative correlation, and that there is a negative relationship between FDI and GDP. The coefficient of determination turns out to be $= (-0.19)^2 = 0.0361$ from here we have that 3.61% of FDI variations are explained by variations in GDP. While the Coefficient of the Alliance is $Ka = 1 - 0.0361 = 0.9639$ it follows that 96.39% are other unexplained factors affecting FDI. Remittances from migration have been and continue to be one of the most important contributors to Kosovo for the country's economic and social development, according to the latest data showing that the value of remittances in Kosovo in 2018 has a negative trend compared to the year 2017, we have a remittance decrease of about 96 million euros.

Literature Review

One of the key elements of international economic development is undoubtedly FDI, whereby these investments create links between economies in promoting their products and services in international markets. Global economic and financial organizations, as well as a large number of academics, focus on issues related to definition as well as theoretical and formal aspects of FDI. There are many definitions of FDI. One of the definitions mentioned is according to the Organization for Economic Co-operation and Development (OECD), "Foreign Direct Investment reflects the intention of securing a stable interest of a resident unit in an economy (direct investor), in a resident unit of another economy (direct investment enterprise) (OECD, 2007). The concept of "sustainable interest" implies the existence of a long-term relationship between the direct investor and the enterprise, as well as a significant influence of the investor on the management of the decision-making process in the enterprise. FDI, according to the classical definition, is when a company in a given country makes a physical investment by building an enterprise or industrial firm of any kind in another country (Rugman & Hodgetts, 1995). FDI seeks a business relationship between its headquarters and its branches outside the country. Direct foreign relations give rise to business for multinational corporations. When a company has at least 10% of the equity holdings owned by foreign investors, the company can be classified as an FDI for a host country, resident of the foreign investor. FDI has different objectives compared to portfolio ones, where investors generally do not expect to have an impact on enterprise management. (OECD, 2008). The purpose of FDI is to provide a significant degree of impact on the management of a resident company in another country. According to some FDI researchers,

they see FDI as a solution to problems around the world such as crisis of poverty, namely hunger, malnutrition, environmental damage, etc, but there are also some researchers who think that FDI is the cause of these disasters. (Sezer, 2006).

FDI is seen as one of the most potential beneficiaries of economic development, especially for emergencies, and is sometimes needed to boost a country's economic growth (Adewumi 2006). FDI can help the host country particularly in technology transfer, and its use in domestic investments, transfer of know-how and managerial or professional skills. In his study (Krkoska, 2001) also highlights the importance of the spillover in the host country's economy, and the replacement of the depreciated capital of that country with the new foreign direct investment capital, which also leads to increased productivity of the host country. But another effect of FDI is the increase in R&D flows in the host country and their circulation to other companies. The literature also highlights the effects of FDI in the area of international trade (Markusen, 1998). This is seen not only from the perspective of the intensification of international trade flows from the host country to the rest of the world, but also from the use of the competitive advantages of different countries. Thus increasing international trade and often increasing quality and lowering the cost of products, consequently their prices. According to the CBK, a significant contribution to the growth of private investment in Kosovo is expected to continue to be bank lending, which is characterized by faster growth rates and lower interest rates. Also, changes in tax policy over the past years are expected to boost private investment.

Research and Methodology

This article presents the theoretical aspect of FDI, a comparison of FDI trends in the Western Balkans with a particular look at the case of Kosovo, for the ten-year period from 2007 to 2017. Then an empirical analysis is continued correlatively in order to measure the robustness of GDP linkage from the impact of FDI and an analysis that has been made in terms of FDI policy management in Kosovo and measures that can be taken to advance investment policies. The theoretical aspect has been dealt with using extensive and contemporary literature, including scientific research in the field of FDI. According to the quantitative and quantitative method, the data used for research can be used from different sources (Fielding, A. & Pillinger, R., 2008). Comparative and historical methods have been applied by comparing Kosovo with the Western Balkan countries and in particular comparisons of FDI over years in Kosovo by their volume and their origin. Empirical data and findings are presented between FDI and GDP by correlation, determinism, and contingency. In order to achieve the objectives of this research paper, extensive literature related to the elaboration of this field has been used, as well as secondary sources including previous studies and case studies in the field of FDI, reports, statistical tables, bases online data from credible local and international sources, etc.

Investment trends in the Western Balkans

At the global level, the value of FDI, according to the United Nations Conference on Trade and Development (UNCTAD) originates from developed countries or is expressed as a percentage with about 90% of foreign investment coming from developed countries (UNCTAD, 2015). Based on the analysis of FDI trends in the Western Balkan countries from 2012 to 2016, it appears that the highest FDI was in Serbia, then in Albania and in other Western Balkan countries such as Kosovo, Macedonia, in Montenegro as well as in Bosnia and Herzegovina where FDI inflows were lower during 2012-2016 (World Bank, 2017).

Table 1: FDI flows in Western Balkan countries from 2012-2017 in USD millions

| Country | Year | | | | |
|------------------------|--------|--------|--------|--------|--------|
| | 2012 | 2013 | 2014 | 2015 | 2016 |
| Kosovo | 293.2 | 371.5 | 199.8 | 343.3 | 239.3 |
| Albania | 920.1 | 1253.8 | 1149.4 | 991.3 | 1087.5 |
| Bosnia and Herzegovina | 392 | 313.3 | 523 | 293.4 | 259.4 |
| Macedonia | 337.9 | 402.5 | 60.9 | 296.6 | 573.1 |
| Montenegro | 618.4 | 446.5 | 496.8 | 699.7 | 226.7 |
| Serbia | 1276.1 | 2059.7 | 1999.5 | 2345.2 | 2215.3 |

Source: World Bank, (2017) South East Europe Regular Economic Report

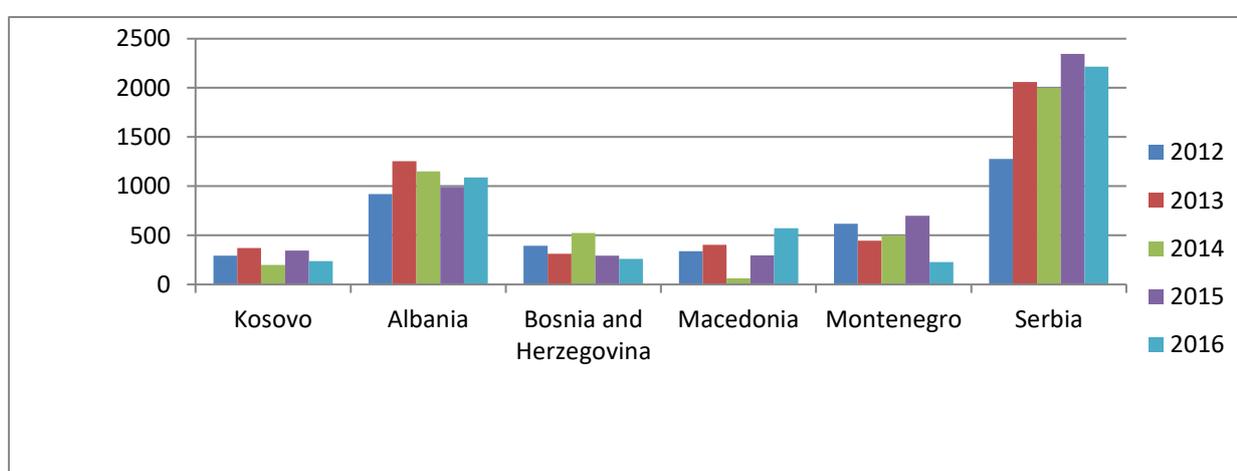


Figure 1: FDI flows in Western Balkan countries over the last five years in USD millions

Source: World Bank, (2017). World Bank data. Graph made in Excel by the authors.

Direct Investment Trends in Kosovo 2007-2017

The year 2015 continues with an increase of 308.8 million euros while in 2016 we have a downward trend of 215.9 million euros or by 25% (Central Banks of Kosovo, 2018). Investments in Kosovo continue to be affected by economic developments globally, especially in the euro area countries. The economic crisis in the eurozone can be said to have had a direct impact on the number of investments in Kosovo, the reason being simple, both in the case of the global crisis and in the eurozone crisis. When there is a crisis in the home countries of Potential foreign investors, the opportunity and desire to invest in their home countries automatically fall. FDI continues to be a very important source of capital flows and economic development. According to the Central Bank of Kosovo (CBK) data, foreign direct investment includes the investment of individuals and foreign institutions in the domestic economy if the investment makes the investor own more than 10% of the capital of an enterprise. The largest foreign direct investments in Kosovo were in 2007 and 2008, while the decline in investments was observed at the end of 2008 and at the beginning of 2009 due to the global economic crisis. The effect of the global economic crisis is especially expanded in 2012 with a steep decline in investment by about 40% less FDI, or this year FDI was around EUR 229.1 million, while in 2013 by about EUR 280.2 million or expressed in percentage for about 22 % more than in the previous year. 2014 marks a decrease of 46% compared to the previous year or other.

Table 2: Foreign Direct Investment during 2007 - 2016 in Euro Millions

| Year | IHD |
|--------------|---------------|
| 2007 | 440.7 |
| 2008 | 369.9 |
| 2009 | 287.4 |
| 2010 | 368.5 |
| 2011 | 384.4 |
| 2012 | 229.1 |
| 2013 | 280.2 |
| 2014 | 151.2 |
| 2015 | 308.8 |
| 2016 | 215.9 |
| 2017 | 287.3 |
| Total | 3323.4 |

Source: Processing of data by authors based on statistical time series data published by the Central Bank of Kosovo 2007 - 2017

Table 3: Foreign direct investment inflow 2012-2016 by source country in Euro Millions

| Country | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|-----------------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Switzerland | 43.8 | 41.7 | 38.2 | 72.9 | 61.8 | 258.4 |
| Germany | 49.5 | 21.7 | 29.4 | 45.3 | 25.7 | 171.6 |
| Albania | 4.7 | 19.3 | 20.4 | 40.1 | 28.6 | 113.1 |
| Turkey | 65.6 | 88.6 | 20 | 55.4 | 44.4 | 274 |
| US | 10.8 | 12.7 | 14.7 | 25 | 22.6 | 85.8 |
| Austria | 0.38 | 10.7 | 30.3 | 33.5 | 9.95 | 84.3 |
| Bulgaria | 8.1 | 5.56 | 14.5 | 1.56 | 0.43 | 30.15 |
| United Kingdom | 14.3 | 10.7 | -39 | 26.6 | 13.6 | 26.2 |
| Italia | 4.38 | 8.73 | 3.31 | 5.67 | 1.91 | 24 |
| Norway | 2.86 | 4.7 | 5.95 | 2.88 | 3.44 | 19.83 |

Source: Authors' data processing based on 2012 to 2016 Central Bank Reports data

With regard to the source of origin of FDI revenue over the years, Switzerland and Germany have contributed significantly and consistently, as Kosovo has a more concentrated diaspora population in these two countries. For this period, Turkey tops the list of source countries with around EUR 274 million or about 23% of total FDI, followed by Switzerland with about EUR 258.4 million or about 22% and Germany with about EUR 171.6 million or at about 14 percent, while other countries account for a smaller percentage of FDI. Based on FDI analyzes, Turkey's higher FDI volume is partly attributable to privatizations and investments in privatized assets that occurred during this time period, particularly privatization of distribution and electricity supply, as well as investments made from the Turkish state to the new terminal at Pristina airport. If we compare the total FDI from 2012 to 2016 it turns out that about 1.2 billion euros of FDI has been absorbed in Kosovo. According to the latest World Bank report, Kosovo ranks 66th in doing business. (World Bank, 2016)

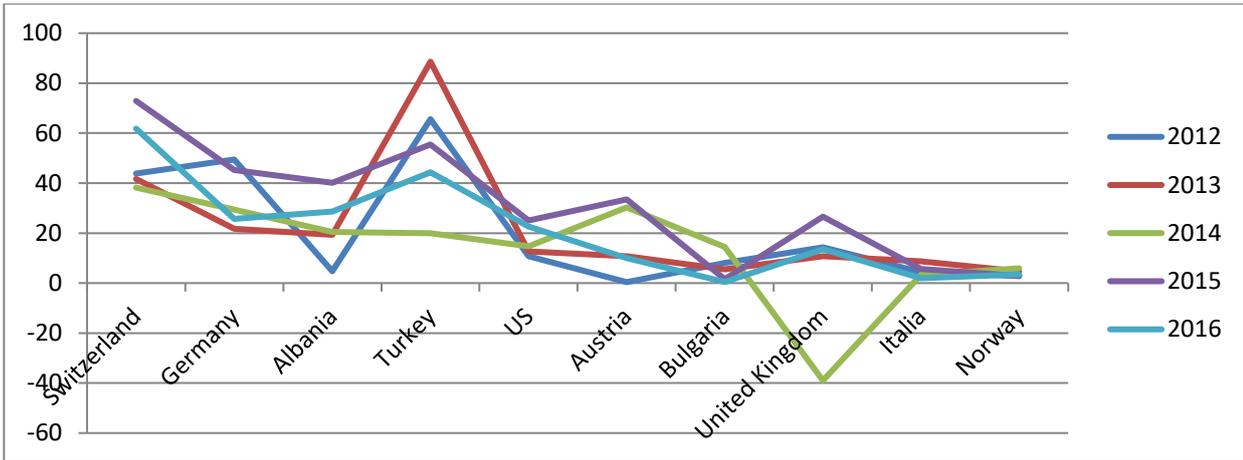


Figure 2: Foreign investment trends 2012-2016 by source country
 Source: Author's data processing based on 2012 – 2017 Central Bank of Kosovo data

Remittances in Kosovo have been and continue to be one of the most important contributors to the country's economic and social development, with estimates suggesting that a quarter or more of households have a family member living abroad. One of the other important sources of households in Kosovo is remittances, which account for about 9% of total household income (KAS, 2016). Based on statistics on the Kosovar population living in the diaspora, it turns out that around 700,000-800,000 people who were born in Kosovo currently live abroad (UNDP, 2014). The official definition of remittances used by the World Bank for statistical purposes is different. According to the World Bank "Remittances are current transfers from immigrants who are considered resident in their destination country (World Bank, 2011). In 2018, remittances in Kosovo amounted to EUR 662.9 million, comparing with remittance revenues for 2017, results that there is a decrease of remittances by about 12.6%. In 2005, annual remittances were 418 million euros, while since 2006 Kosovo's remittances have increased slightly, comparing revenues from 2005 to 2018 shows that higher remittances were higher in 2015 with about 772 million euros per year. (Bellaqa, B., Tmava, Q, 2018).

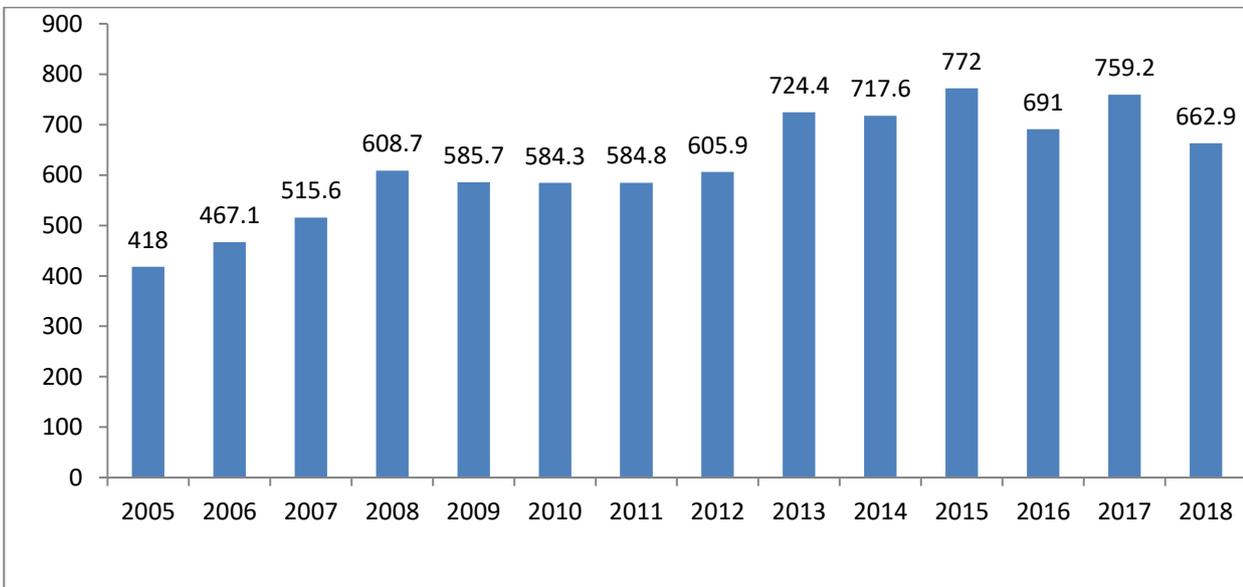


Figure 3: Remittance revenues in Kosovo 2005-2018 (in EuroMillions)

Source: IJECM, (2018). Impact of remittances on economic development and management of remittances: Evidence from Kosovo 2018

Data and Empirical Method

In order to measure the strength of the relationship between the independent FDI variable (X) and the GDP dependent variable (Y), correlational analyzes were used in this paper. As a result of the correlational study the so-called correlation coefficient is obtained. From the way it is defined, the correlation coefficient values are between - 1 and + 1. Its + 1 value indicates that both variables are in complete linear relation and in the same direction which means that all points lie in a straight line with positive angular coefficient. Whereas the value - 1 of the correlation coefficient represents or indicates that the variables are in complete linear relation and in the opposite direction. For correlation analyzes, it has been argued that the correlation coefficient is a summary measure describing the degree of statistical relationship between two variables, dependent variables and independent variables (Leroux, 2009). Indicators of FDI and GDP correlation analysis are presented by Correlation Coefficient (r), Determination Coefficient (r^2) and Alliance / Contingency Coefficient (ka). Based on correlational analyzes we analyze the impact of FDI on GDP. For FDI and GDP, the correlation analysis covers the ten year period from 2007 to 2017.

Covariance - The choice covariance is determined as follows:

$$S_{xy} = \frac{\sum(x_1 - \bar{x}) * (y_1 - \bar{y})}{n - 1}$$

To measure the strength of the linear relationship between FDI and GDP, we calculate the covariance of choice according to the following formula:

$$S_{xy} = \frac{\sum(x_1 - \bar{x}) * (y_1 - \bar{y})}{n - 1} = -160371 / 11 = -14579.1$$

Correlation coefficient

The correlation coefficient is $r = -0.19$ from this we notice that we have a weak negative correlation, and that there is a negative relationship between FDI and GDP.

Determination coefficient:

$r^2 = (-0.19)^2 = 0.0361$ hence we have that 3.61% of the FDI variation is explained by the variation in GDP.

Coefficient of alliance:

$Ca = 1 - r^2 = 1 - 0.0361 = 0.9639$ hence, 96.39% are other unexplained factors affecting FDI.

Table 4: Data over the period 2007-2017 given in euro millions

| Vite | IHD X1 | GDP* Y1 | X1- \bar{X} | (x1-x) $\bar{2}$ | y1- \bar{y} | (y1 - \bar{y}) $\bar{2}$ | (x1-x) $\bar{}$ *(y1- \bar{y}) |
|--------|-----------|------------|---------------|------------------|---------------|-----------------------------|-----------------------------------|
| 2007 | 440.7 | 3,191.7 | 138.6 | 19209.9 | -1.501.30 | 2253901.6 | -208.039 |
| 2008 | 369.9 | 3,433.6 | 67.7 | 4583.2 | -1.259.40 | 1586088.3 | -85.2343 |
| 2009 | 287.4 | 3,882.8 | -14.7 | 216.0 | -810.20 | 656424.0 | 11909.94 |
| 2010 | 368.5 | 4,069.6 | 66.3 | 4395.6 | -623.40 | 388627.5 | -41331.4 |
| 2011 | 384.4 | 4,402.0 | 82.2 | 6756.8 | -291.00 | 84681 | -23920.2 |
| 2012 | 229.1 | 4,814.1 | -73 | 5329 | 121.10 | 14665.2 | -8840.3 |
| 2013 | 280.2 | 5,058.9 | -21.9 | 479.6 | 365.90 | 133882.8 | -8013.21 |
| 2014 | 151.2 | 5,326.7 | -150.9 | 22770.8 | 633.70 | 401575.6 | -95625.3 |
| 2015 | 308.8 | 5,567.5 | 6.7 | 44.8 | 874.50 | 764750.2 | 5859.15 |
| 2016 | 215.9 | 5,807.0 | -86.2 | 7430.4 | 1.114.00 | 1240996 | -96.0268 |
| 2017 | 287.3 | 6,070.1 | -14.8 | 219.0 | 1.377.10 | 1896404.4 | -20.3796 |
| Totali | 302.1 | 4.693.0 | 0 | 71435.1 | 0 | 9421997.0 | -160371 |

* GDP- spending approach at current prices

Source: The data were processed by the authors based on the data of the Kosovo Statistical Agency on GDP data as well as the FDI data of the Central Bank of Kosovo for 2007-2017.

$$r = \frac{\sum(x_1 - \bar{x})(y_1 - \bar{y})}{\sqrt{\sum(x_1 - \bar{x})^2 \sum(y_1 - \bar{y})^2}} = r = \frac{-160371}{\sqrt{71435.1 \times 9421997}} = \frac{-160371}{820403.1} = -0.19$$

Policy management and measures for attracting foreign direct investment

Managing a stable, credible and highly accountable political system plays an essential role in attracting FDI in Kosovo. Kosovo needs to do more to put its FDI attraction policies on track, where they have not been sustainable so far. Management should be at a proper level against FDI by assessing the contribution of these investments as well as creating and managing sustainable economic policies that promote the attraction of these investments. Although the Government of Kosovo has prioritized FDI growth, FDI growth is still not at a satisfactory level, in spite of the fact that in 2018 we have a dramatic decline in FDI, where FDI has dropped to 213 million euros. The declining trend of international capital is an important indicator of the loss of confidence of potential investors in Kosovo, so political stigma is one of the essential factors that has had a significant impact on the decision of foreign businessmen to start investing elsewhere. Undoubtedly, any political interference in the economic policy field is a bad signal for potential investors, because they do not see Kosovo as a serious country in terms of the consistency of laws, regulations, and norms whether in the field of taxation or other areas. Creating a favorable business climate is essential for attracting FDI and for developing small and medium-sized enterprises. For higher attraction of FDI Kosovo should increase the level of investment policy management to an appropriate level by making Kosovo a competitive state in the region and beyond. Prioritizing in terms of a favorable tax system, natural resources, quick and easy business registration, transparent foreign investment laws and other advantages make Kosovo a more attractive and favorable environment for foreign investors (World Bank Group, 2019). One of the political measures of the Government of Kosovo that can be undertaken in creating and providing a favorable environment for FDI may be to increase and strengthen the perception of security through further integration into the global economy, participation in various forms of international cooperation, stable legislation, even if there is a change in legislation, it should only be changed through transparent processes and defined periods, as well as maintaining open dialogue with the private sector, maintaining transparency at the highest levels through e-government, publishing and reviewing administrative decisions, and free and independent media. Sustainable macroeconomic management policies are a crucial part of the incentive policy framework, reducing the risk of doing business by guaranteeing a generally predictable business climate as well as investment decision-making and free economic zones. Another issue to be improved is raising public awareness of the importance of policy and security management aspects for creating a positive image of Kosovo globally as well as for investors. In Kosovo corruption and lack of transparency still remain one of the challenges in attracting investors in Kosovo. Corruption can affect the length of licensing procedures, making them quite expensive. Transparency is further hampered by the fact that a large part of Kosovo's commercial activities take place outside the formal economy. Corruption is a negative phenomenon, where businesses in some cases are victims, but in some cases businesses are also involved in this negative phenomenon. Bribery is a common practice where, according to a 2012 Corruption and Crime Survey of Businesses conducted in Kosovo, regarding bribery modalities, businesses are often pro-active in influencing public officials through bribery. About 38% of all bribe payment cases are provided by a business representative, without making a prior request. While about 50.1% of cases were requested by a public official, requiring bribe payments indirectly by about 13.3% and direct by 30.3% by the public official, or through a third party seeking about 6.5% on behalf of the official (UNDOC & KAS, 2013). The phenomenon of corruption is a serious phenomenon, which adversely affects the development of the economy and the creation of equal competition.

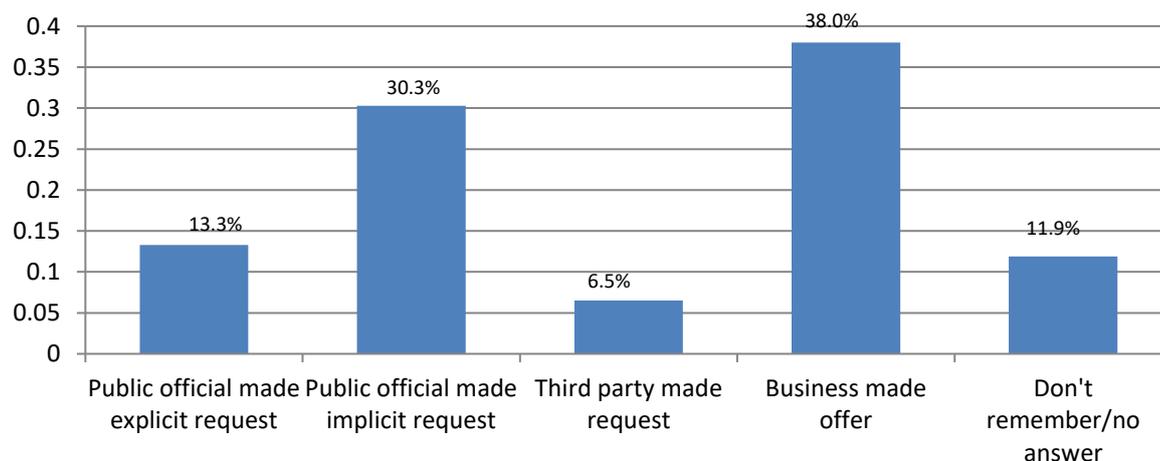


Figure 4: Bribes paid by businesses, according to the bribery demand and supply modality in Kosovo in 2012, expressed as a percentage

Source: UNDOC & KAS, (2013) Business, Corruption and Crime in Kosovo

There are many reasons to invest in Kosovo based on the natural and human resources that Kosovo possesses, but it is necessary to have a more significant improvement of the management policies at the national level in terms of macroeconomic, financial, fiscal and growth of competitiveness of the country's economy in the regional market.

Findings

Based on the analysis of the trend of FDI for the period 2012-2016 in the Western Balkan countries, it results that from 2012 to 2016, the highest FDI was in Serbia, while in the other Western Balkan countries the trend Investment has been lower. The IIHD trend in Kosovo did not have proper stability, as from 2012 to 2014 there was a decline in FDI, with the sharpest decline in FDI in 2012 being around 40%. There was a slight increase in FDI in 2015, but again in 2016 there was a 25% decline in FDI. Analyzes show that the countries that contributed the most to FDI for the period 2012-2016 are Turkey with about 274 million euros or about 23% of total FDI, followed by Switzerland with about 258.4 million euros or about 22 percent. % as well as Germany with about 171.6 million euros or about 14 percent while other countries participate with lower percentage of FDI. Remittances appear to have played and are playing an important role in household income; based on comparative analysis between the years 2005-2018, it turns out that remittances are higher in 2015 with around 772 million euros a year, but we can say that even in remittances we do not have proper stability. Based on the correlation analysis between FDI and GDP, it turns out that the correlation coefficient is $r = -0.19$. From this we find that we have a weak negative correlation, and that there is a negative relationship between FDI and GDP. Whereas in terms of the coefficient of determination it turns out that $r^2 = (-0.19)^2 = 0.0361$ From here we have that 3.61% of the FDI variation is explained by the variation of GDP. Whereas the coefficient of the alliance is $Ka = 1 - r^2 = 1 - 0.0361 = 0.9639$ it follows that 96.39% are other unexplained factors affecting FDI. Based on political analysis, the Government of Kosovo considers FDI growth as a priority, but again FDI growth is still not at a satisfactory level, however, in the last year and in 2018 respectively we have had a drastic decline in FDI, where FDI has dropped to 213 million euros. One of the factors that has been declining in FDI is the loss of confidence of potential investors in Kosovo, political stubbornness, informality, corruption, etc.

Conclusion

The origin of FDI in Kosovo is from different countries, but the main investment flow comes from Switzerland, Germany and Turkey, while other countries participate with a smaller investment flow. Creating and maintaining political stability can be said to be one of the key factors in attracting FDI. Unstable FDI management policies, inadequate incentive regime, then the small local market, and the unfavorable climate that prevails turn out to be some of the reasons for Kosovo's poor performance of FDI. As for Turkey's FDI, it relates mainly to privatization, both in the privatization of electricity distribution and investment in the new Pristina airport terminal, while FDI from Switzerland and Germany which traditionally have been two countries that have continued to contribute significantly; the main reason being that the number of emigrants from Kosovo is also higher in these two countries. In Kosovo, there is a need to increase the support and encouragement of relevant stakeholders in promoting investment at the state level in order to increase FDI promotion activities. Recommendations to be taken into consideration by the Government of Kosovo, respectively the relevant Minister, is the creation of a package of incentives for foreign investment, especially in the manufacturing sector, as Kosovo is currently a consumer state rather than a producer, so we have a negative trade balance. The strength of the correlation between the independent FDI variable and the GDP dependent variable based on correlational analysis shows that there is a negative correlation between FDI and GDP. Kosovo needs to make continuous efforts in terms of creating a favorable climate for business development, strictly respecting the law, fighting corruption and organized crime, informality that is highly emphasized in Kosovo, rationalization of tax procedures, etc. Another very important issue is to have comprehensive information both in terms of breadth and depth of FDI, where this information needs to be consistent and timely in order to develop more sustainable management policies in terms of attracting FDI. As a further issue Kosovo should increase the intensification of efforts towards the Stabilization and Association Agreement, the implementation of the obligations and standards deriving from this agreement, etc. Kosovo needs to increase the support for businesses also in terms of product certification according to EU and international standards. Country-level management policies should play a more active role in creating an attractive FDI environment by creating better practices and coordinating efforts to address FDI-related issues. Improving the policies of the competition management at the level to increase FDI productivity and efficiency are important factors for sustainable economic development in Kosovo. Reforms in the implementation of legislation, taxation, elimination of corruption respectively minimization, are needed, etc. It is understood that FDI is higher in those countries where the rule of law is, where there is no corruption and economic crime, where there is no bureaucracy, where there is transparency. Undoubtedly, any political interference in the field of economic policy is a bad signal for potential investors, because they do not see Kosovo as a serious country in terms of the consistency of laws, rules, and norms whether in the field of taxes or other areas. Another issue that needs to be improved in terms of policy management at the country level is also in the area of remittances in Kosovo, where based on comparative analysis over the years it is noticed that remittances have not increased in recent years and their orientation is more geared to household consumption rather than investment, so it is very important for remittances, respectively Migrant Worker remittances to be focused on investment rather than on household consumption. In terms of size, Kosovo's economy is small and characterized by limited potentials that make it highly susceptible to external developments. One of the recommendations that emerges from this research paper, apart from some of the above recommendations, is the creation of good and coordinated practices in an effort to address issues related to contemporary international practice and experiences to serve as a basis for establishing a motivational FDI environment. To be successful, the Government of Kosovo must concentrate on continually improving political stability, enhancing transparency, combating corruption and organized crime, combating informality that is highly emphasized in Kosovo. Another recommendation is to raise the awareness of FDI representatives of businesses and public opinion as well as to protect loyal competition by reducing fiscal evasion, and also creating export facilities and signing agreements with neighboring and international countries to eliminate existing bureaucratic and administrative barriers.

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